



WILLIAM T FUJIOKA
Chief Executive Officer

County of Los Angeles CHIEF EXECUTIVE OFFICE

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September 16, 2008

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, CA 90012

Dear Supervisors:

APPROVAL OF CONTRACT FOR WORKERS' COMPENSATION CLAIM THIRD-PARTY ADMINISTRATION SERVICES (ALL DISTRICTS) (3 VOTES)

SUBJECT

To approve a contract with Intercare Insurance Services (Intercare) to perform workers' compensation third-party claim administration (TPA) services for Unit 3 of the County of Los Angeles (County) Workers' Compensation Program.

IT IS RECOMMENDED THAT YOUR BOARD:

1. Find that these services can be more economically performed by an independent contractor than by County employees.
2. Approve and instruct the Chair to sign the attached contract with Intercare for TPA services for a five-year term, commencing January 1, 2009 through December 31, 2013, with a provision for two, one-year renewal options, at a first year annual cost of \$7,520,688.
3. Authorize the Chief Executive Officer (CEO) or his designee to approve and execute all renewal options, extensions, and change notices pursuant to the provisions of the contract.

Board of Supervisors
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First District

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PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

The County's Workers' Compensation Program is organized into four Units (Units 1 - 4), each Unit comprised of designated departments and their respective claims. The County presently utilizes three TPA contractors to adjust workers' compensation claims: TRISTAR Risk Management (TRISTAR) administers Units 1 and 2, Intercare administers Unit 3, and Acclamation Insurance Management Services, Inc. (AIMS) administers Unit 4. The purpose of this recommendation is to replace the existing Unit 3 contract, which expires on December 31, 2008.

Implementation of Strategic Plan Goals

This recommendation supports the County's Strategic Plan Goal 2 - Workforce Excellence, Goal 3 - Organizational Effectiveness, and Goal 4 - Fiscal Responsibility, by providing timely and cost effective workers' compensation claim administration services.

FISCAL IMPACT/FINANCING

The contract's projected first-year cost is \$7,520,688. Costs for this contract will be paid from the County's Workers' Compensation Employee Benefits Operating Budget. Funding has been included in the Fiscal Year 2008-09 Adopted Budget.

The contract contains a Cost-of-Living Adjustment (COLA) provision, whereby, the CEO may increase the contractor's compensation during subsequent years. Pursuant to County policy, the COLA is capped at the lesser of the general salary movement percentage for County employees or the Consumer Price Index for Urban Consumers (CPI-U).

The contract includes an option to reduce claim examiner caseloads at set costs. This option contemplates unanticipated service needs initiated by changing State of California statutory and regulatory requirements. A reduction in claim examiner caseloads and the related increase in service fees will require your Board's approval. In addition, this contract contains a new provision requiring the contractor to perform a Statement of Auditing Standard (SAS) No. 70 (Type II) audit. As such, a widely recognized auditing standard will be applied to the contractor's control processes and activities.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

The contract contains all required Board, CEO, and County Counsel provisions. The contract has been approved as to form by County Counsel.

The Community Business Enterprise (CBE) information form is attached (Attachment 1).

CONTRACTING PROCESS

On January 4, 2008, the CEO issued a Request For Proposals (RFP) for workers' compensation claim TPA services. The RFP was posted on the County's "Doing Business With Us" website (Attachment 2); and advertisements were placed in the *Los Angeles Times*, *Los Angeles Sentinel*, *La Opinion*, and *Acton/Agua Dulce* newspapers. An Invitation to Submit Proposal was mailed to 146 vendors, including 22 vendors from the Office of Affirmative Action Compliance participating vendors listing.

On February 7, 2008, 14 vendors attended the mandatory Proposers Conference.

Three bidders: CorVel Corporation, AIMS, and the incumbent Intercare, submitted proposals which meet the County's minimum requirements. Each proposal was thoroughly and comprehensively evaluated by representatives from the departments of the CEO, Sheriff, Coroner, Fire, Health Services, Internal Services, Parks and Recreation, and Public Works.

The proposals submitted by AIMS and Intercare were ranked highest, with the AIMS' proposal ranking 4.6 percent higher. However, the CEO recommends awarding the contract to Intercare, as: 1) Intercare is highly qualified to perform the work, and 2) the County is better protected against risk by utilizing three TPA contractors rather than two for these critical services. If this contract were awarded to AIMS, then the County would have only two TPA contractors to provide services for all four Units (i.e., AIMS and TRISTAR). If one contractor were to unexpectedly terminate its contract, then the administration of all County workers' compensation claim files would be the responsibility of the one remaining contractor.

All proposers were debriefed on their proposal ratings and no protests were filed.

The "Proposition A" cost analysis (Attachment 3) demonstrates an estimated first-year cost savings of \$948,719. The Auditor-Controller has reviewed the cost comparison and concurs that the contract is cost-effective.

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Intercare fully complies with the requirements of the Living Wage Program (County Code Chapter 2.201), and agrees to pay a living wage to their employees providing County services.

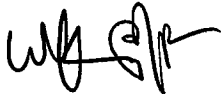
IMPACT ON CURRENT SERVICES (OR PROJECTS)

Approval of this contract will enable the CEO to continue to provide critical workers' compensation claim administration services to County departments, and ensure the delivery of statutorily mandated workers' compensation benefits.

CONCLUSION

Upon approval by your Board, please return two signed originals of the contract and one adopted copy of this letter to the CEO's Risk Management Branch, attention Rocky A. Armfield, County Risk Manager.

Respectfully submitted,



WILLIAM T FUJIOKA
Chief Executive Officer

WTF:ES
RAA:AR:km

Attachments

c: County Counsel
Auditor-Controller
Office of Affirmative Action Compliance